

EXHIBIT F

**Money in all the Wrong Places: Corruption and Financing Terrorist
Organizations**

Georgianna Giampietro

Introduction

Over the past years, terrorist organizations have changed drastically along with the development of an array of global terrorist networks. One of the main apparent changes in these developments can be found in how terrorist groups expand their new financial aspects and controls. Due to the effects of the globalization process, terrorist organizations have found a variety of corrupted financial support. This research paper focuses on literature over the involvement of corruption and financing of terrorist organizations. The first section of this paper explains why terrorist groups tend to reside in failed states. The next two sections focus on state-sponsorship, charitable organizations, and self-funders. The fourth section discusses the use of information technology and the use of violence to help assist with finances. The next section touches on bribery, fraud, and money-laundering. While the sixth section discusses the use of drug-trafficking, trafficking of persons, and kidnapping for ransom to facilitate money for these organizations. The last section addresses what is being done to alleviate the corruption and financing with terrorist groups? A conclusion will follow to relate corruption to organized crime which is the financial aspect of terrorist organizations.

Failed States

The reason that terrorist organizations call failed states a home is due to the number of opportunities that failed states hold. Due to the extremity of corruption within these failed states, they are able to provide a safe haven for these groups to set up training camps, a place for collection of arms, communication facilities, and business opportunities. Control over these territories permits the construction of institutions along with allowing groups to build up business interests. Failed states allocate terrorist groups to establish transshipment points

(Takeyh & Gvosdev, 2002). The concept of a failed state can be defined as the breakdown of government authority over the state, lack of control, and lack of the rule of law. Within these failed states, groups compete for power or over sources of natural resources such as diamonds, oil, and cocaine while terrorist groups use these natural resources to illegally finance their networks (Ferguson & Mansbach, 2012). Failed states is where various corruption takes place, due to the lack of government authorities, by distribution of drugs, weapons, dirty money, and illegal migrants that will be later discussed in the sections below.

How do authorities allow these groups to gain control within the state? Terrorist groups offer their services to failed states during and after times of conflict. The terrorist organizations arrive to these corrupted states in the time of need for these government officials, and they bring with them man-power, equipment, and finances to help authorities fight local wars. “Once on the ground, they could exploit the chaos caused by fighting to set up their operations” (Takeyh & Gvosdev, 2002, p. 99). Moreover, which is later discussed in section six of this paper, failed states have weak or non-existing law enforcement abilities which assist terrorist organizations to take on smuggling and drug trafficking to raise funds for their operations.

Located here in these failed states, safe havens are used to create pools of supporters and recruits for the organizations due to the vacuum left by the failure of civil society and official state power. “By playing on the widespread dissatisfaction with the corruption, economic stagnation, and political repression,” these groups use strategically geographic locations to recruit by use of the “rural and mountainous areas of the region to create safe havens for training terrorists” (Takeyh & Gvosdev, 2002, p. 100). They take advantage of the poor economic conditions located within failed states by bribing officials and easily recruiting unemployed young men.

Lastly, as explained by Takeyh and Gvosdev (2002), failed states show outward signs of sovereignty. This in turn allows the government, with a decent payoff, to issue legitimate passports and other documents for terrorist organizations to use. By governments allowing this ability for the groups to move around the world and hide their true identity, permits the set up of companies, the mobility of assets, and other corruption factors that will be discussed below while using the protection of state sovereignty to hide their operations (Takeyh & Gvosdev, 2002).

State-Sponsorship

States have been sponsoring terrorism since 9/11, but it was not until after this horrendous event that the United States began to recognize that this was not the only type of financial support for terrorist networks. Charities and self-funders will be discussed in the next section below. The concept of state sponsorship may be defined as a “country that willfully, knowingly, and intentionally was providing direct support for terrorist groups” (Winer, 2008, p. 114). During 2001, the United States found the most active state sponsor in providing support was Iran. Iran provided support to many terrorist organizations such as Hezbollah, Hamas, and the Palestine Islamic Jihad (Winer, 2008). However, prior to 9/11 the State Department found Sudan as a state sponsor of Al-Qaeda.

Winer (2008) explains that the decades of civil war within Afghanistan left informal money service providers known as the hawala system. This informal banking system has become a host of mixed licit and illicit transactions. This allows terrorist groups to funnel funds from narcotics from Afghanistan to wherever the terrorist network needs the money. For the state of Pakistan, their “lack of control of its border area is exacerbated by corrupt officials” (Winer, 2008, p. 117). Also, within Pakistan are private unregulated charities which provide a

major source of illicit funds to international terrorist networks. The lack of control of the schools allows terrorist organizations to receive corrupt financial support under the support of Islamic education (Winer, 2008).

Charities and Self-Funders

Terrorist organizations for the longest have exploited charities. Winer (2008) states that these charities provide “social services such as education, health care, religious instruction as mechanisms to generate support for their causes and to propagate extremist ideologies” (p. 115). Terrorist groups use charities to attract a significant amount of donors to “increase public support, to discourage government action against them, and to operate in areas of conflict where terrorists otherwise would have no cover” (Winer, 2008, p. 115). For example, Hamas is a major fund-raising organization. They market to Muslims around the world for the cause of the Palestinians. “Over decades, Hamas has established networks of highly visible mosques, schools, and relief organizations that are widely seen by many Palestinians as providing services more effectively than the Palestinian Authority” (Winer, 2008, p. 115).

Some terrorist groups turn to self-funding. Self-funding relates to the engagement of criminal activity with sometimes the collaboration of other criminal groups. More explanation is discussed below in sections; however, here are some diverse terrorist groups and their illicit types of productions: al Qaeda in Afghanistan and Pakistan (opium), Hezbollah in Lebanon and Syria (opium and hashish), PKK in Turkey (opium and hashish), Chechen separatists and Hezbollah (tobacco smuggling), Basque and Kurdish PKK (arms trafficking), PKK, Commandos of the Armenian Genocide, FARC, and AUC (extortion, kidnapping, and armed robbery) (Winer, 2008, p. 116).

Another aspect to examine that relates in this section is personal corruption. Ehrenfeld (2003) looks at the corruption of Arafat, and as of August 2002 his personal holdings were about \$1.3 billion not including \$340 million in a Swiss Bank. It is important to note that Arafat is the head of the Fatah terrorist organization, chairman of the Palestinian Liberation Organization, and the president of the Palestinian Authority. Ehrenfeld (2003) explains that “some of his corruption shows itself simply in the form of outright theft of aid funds” (p. 24). The author then cites that “there is no institutional process. There is only one institution—the presidency, which has no law and order and is based on bribing top officials” (Ehrenfeld, 2003, p. 24). The author also cites Abd Al-Wahhab Al-Effendi expressing the following:

Corruption of the Palestinian Authority and other Arab regimes is actually a necessary condition for fulfilling the role imposed upon them to serve foreign interests and subjugate the peoples. Were the Palestinian Authority to give full authority to the Palestinian parliament and legal apparatuses, and were to obey popular will and spend its grant funds and income on education, health, services, and reviving the economy, what would be left for bribing the activists and intellectuals with appointment to ministries and the security apparatus (pp. 25-26).

Information Technology and Violence

Terrorist groups have learned over the years to utilize information technology to support their operations across the globe. They use this technology to gather information on their targets or easily identify individuals who they can corrupt for their goals. These organizations are able to use information technology in order to develop computer-designed pictures and holographic images which are used in counterfeiting (Shelley & Picarelli, 2002). They are capable of

developing driver's licenses and green cards that are hard to identify as counterfeits. "Terrorists exploit information technology to maximize the effectiveness of their operations through the use of rapid, robust, and relatively secure communications" (Shelley & Picarelli, 2002, p.310). This allows terrorist organizations to easily transfer and move money across the globe.

While terrorist organizations set up shop within mostly failed states, their violent attacks are usually committed outside their host state. Terrorist networks motive is to kill in order to eliminate political competitors. "Terrorist groups focus violence on targets that help promote their organizational goals and eliminate political enemies" (Shelley & Picarelli, 2002, p. 309). These terrorist networks set their targets on public places in order to kill innocent people whom are unrelated to the target organization.

Bribery, Fraud, and Money-Laundering

Payments are usually made to government leaders in failed state in return terrorist organizations are provided a safe haven to set up their networks. Terrorist networks are able to bribe "government officials to mitigate the ability of law enforcement, regulatory, or other agencies that are directly responsible with interdicting or eradicating both forms of transnational criminal groups" (Shelley & Picarelli, 2002, p. 312).

Shelley & Picarelli (2002) examines the different methods of corruption. "The most common form [of payment] is monetary payment, and this [still] remains a popular form of corruption" (Shelley & Picarelli, 2002, p. 312). Terrorist organizations can also provide goods along with a range of legal or illegal services in return for services of a corrupt official (Shelley & Picarelli, 2002). Moreover, the authors state another form of corruption which is "the use of

compromising information or threats aimed to force an official to work with” terrorist groups (Shelley & Picarelli, 2002, p. 312).

Terrorist organizations are able to produce fake credit cards, conduct credit card scams, and solicit funds to help support their financial needs. Some groups engage in extortion and protection rackets while adding fraud slowly to help with their funding (Jenkins, 2006). Since terrorist networks depend on money to finance their illegal activities, they launder their funds effectively around the globe. “Terrorist support themselves through the hawala system which is a large-scale cash movement facilitated by their own transport systems, spin-off funds from charities, and front companies” (Shelley & Picarelli, 2002, p. 311). Terrorist groups have in-house specialists such as financial advisors, accountants, bankers in offshore zones, and bankers in key financial institutions.

Drug Trafficking, Trafficking of Persons, and Kidnapping for Ransom

Drug trafficking has become the largest source of profits for terrorist organizations. In many parts of the world drug sales are used to help support terrorist activities. The trafficking of persons serves a number of ends for terrorist organizations. Trafficking of persons “can mask the movement of members of terrorist groups, and they are able to profit from the trade in human beings” (Shelley & Picarelli, 2002, p. 313). These traffickers target consular officials who are gullible and vulnerable to corruption to obtain visas to help move those they traffic. Terrorist groups usually target the private sector to achieve their human-trafficking goals such as corrupting individuals in the transport sector to obtain access to cargo containers and boats.

Recently terrorist groups have turned to kidnapping and ransom in order to collect money and arms (Shelley & Picarelli, 2002, p. 314). For example, kidnapping foreign tourists and aid

workers to obtain ransoms which included a recent payment reported of 300,000 American dollars, which happened in southern Philippines and was Al-Qaeda linked (Shelley & Picarelli, 2002).

Possible Elements to Cease Financing of Terrorist Groups

The United Nations Security Resolution 1373 requires all UN member states to put into place comprehensive measures against terrorist finance. Another group put into place is the Working Group on Terrorist Financing (WGTF) which places new standards to freeze terrorist related assets, regulating and monitoring alternative remittance systems such as the hawala, protecting nonprofit organizations from terrorist abuse (Sorel, 2003). Sorel (2003) states that financial institutions are now requiring to include originator information on cross-border wire transfers.

Winer (2008) suggests ideas to combat terrorist finances. First, the author states that “profound political problems still need to be addressed to ensure global cooperation against terrorist threats” (Winer, 2008, p. 125). The United States needs to complete work that has been focused on these corrupt charities for the purpose of financing these terrorist networks. Thirdly, United States “law enforcement needs to continue its two-decade-old migration to becoming not merely cross-border but global” (Winer, 2008, p. 126). The author here is suggesting checks on information flow. The U.S. needs to complete on its own the regulation of all financial sectors on hedge funds and any other uncovered sectors. The fifth step relates the need to address currency in bulk amounts. The last step is for the United States to consider whether UN activity against terrorism can be strengthened (Winer, 2008, pp. 126-127).

Trager & Zagorcheva (2006) looks at deterrence strategies. These authors state that terrorist organizations can be deterred “by holding at risk their political goals, rather than life or liberty” (Trager & Zagorcheva, 2006, p. 88). Interestingly the authors look at terrorist networks as a system of actors with each actor sharing a specific role in the system. One of the actors consists of the financiers. Some actors are more difficult to use deterrence strategies, but fortunately financiers are easier to deter. States should become be willing to commit to tracking these financiers down. “It is sometimes possible to concentrate investigative resources [to] uncover the source of financing in a particular case” (Trager & Zagorcheva, 2006, p. 97). The authors address that a policy for “committing significant resources to find and punish financiers may therefore deter an essential part of the system from engaging in terrorist activity” (Trager & Zagorcheva, 2006, p. 97).

Conclusions

From the above literature, examines globalized organized crime or transnational crime in relation to financing terrorist organizations. I now conclude how these organized crime factors relate to corruption within helping to finance and support terrorist networks. I condense the literature into this brief conclusion on how terrorist organizations have learned to exploit corruption. First to recognize, these types of crime survive due to their “non-transparency, flexibility, and self-repair capabilities” (Ferguson & Mansbach, 2012, p. 169). Looking at these enormous profits from drug trafficking makes it possible for terrorist networks to “corrupt officials at every level of government, thereby undermining the legitimacy of political and judicial institutions” (Ferguson & Mansbach, 2012, p. 169). Both terrorist networks and failed states receive tradeoffs from each other. Trager & Zagorcheva (2006) states that “failing states may be highly motivated to sell their capabilities and provide other assistance for financial gain”

(p. 97). Terrorist groups provide these failed states with security and protection while bribing officials to allow them to set up their networks within.

Terrorist groups corrupt charity organizations by using these donations for their personal gain and to finance their attacks. Looking at state sponsors, Shapiro & Siegal (2007) gives an example of the Sudanese government. Al Qaeda's businesses located in Sudan during 1993 generated enough money "to support thousands of followers, run military training camps, and provide large kickbacks to the Sudanese government" (p. 405). Also, terrorist organizations bribe financial advisors, accountants, bankers in offshore zones, and bankers in key financial institutions in order to launder money overseas.

Another aspect of finances for these groups is through trafficking of persons. Here terrorist networks are able to target consular officials who vulnerable to corruption to get visas to help move those they traffic. They target the private sector to achieve their human-trafficking goals such as corrupting individuals with bribes in the transport sector to obtain access to cargo containers and boats. With the many different types of organized crime used to finance terrorist organizations, the illegal funds are either used for personal gain, bribing officials to set up different types of networks, and most importantly terrorist attacks.

References

Ehrenfeld, R. (2003). *Funding Evil: How Terrorism is Financed and How to Stop It*. American Center for Democracy.

Ferguson, Y., & Mansbach, R. (2012). *Globalization: The return of borders to a borderless world?* Routledge: New York, New York.

Jenkins, B. (2006). Chapter 8: The New Age of Terrorism. *McGraw-Hill Homeland Security Handbook*: The McGraw-Hill Company, Inc.

Shelley, L. & Picarelli, J. (2002). Methods not Motives: Implications of the Convergence of International Organized Crime and Terrorism. *Police Practice and Research*, 3(4), pp. 305-318.

Takeyh, R., & Gvosdev, N. (2002). Do Terrorist Networks Need a Home? *The Washington Quarterly*, 25(3), pp. 97-108.

Trager, R., & Zagorcheva, D. (2006). Deterring Terrorism: It Can Be Done. *International Security*, 30(3), pp. 87-123.

Shapiro, J., & Siegal, D. (2007). Underfunding in Terrorist Organization. *International Studies Quarterly*, 51(2), pp. 405-429.

Sorel, J. (2003). Some Questions about the Definition of Terrorism and the Fight against Its Financing. *European Journal of International Law*, 14(2), pp. 365-378.

Winer, J. (2008). Countering Terrorist Finance: A Work, Mostly in Progress. *American Academy of Political and Social Science*, 618, pp. 112-132.

